

Worksheet Solutions

IRS History

Theme 6: Understanding the IRS Lesson 1: The IRS Yesterday and Today

Key Terms

income taxes—Taxes on income, both earned (salaries, wages, tips, commissions) and unearned (interest and dividends). Income taxes can be levied both on individuals (personal income tax) and businesses (business and corporate income taxes).

Internal Revenue Service (IRS)—The federal agency that collects income taxes in the U.S.

revenue—The income the nation collects from taxes.

Summary

The Constitution gave Congress the power to levy federal taxes. Tariffs were the federal government's chief source of **revenue** until the Civil War, when Congress passed the first federal **income tax** to help cover war costs. The Office of the Commissioner of Internal Revenue was set up to collect the taxes.

The Civil War income tax expired in 1872. Congress tried to pass a similar income tax, but in 1895 the Supreme Court declared it unconstitutional. No more federal income taxes were levied until the Sixteenth Amendment was passed in 1913.

In 1953 the completely reorganized Bureau of Internal Revenue was renamed the **Internal Revenue Service (IRS)**. Throughout the second half of the twentieth century, tax laws were restructured to better serve taxpayers. The Tax Reform Act of 1969 helped to stop corporations and the rich from avoiding taxes. The Tax Reform Act of 1986 reduced the number and level of tax rates. The Taxpayer Relief Act of 1997 made more than 800 changes to the existing tax code.

Today, the IRS is a service agency that checks tax returns, collects tax payments, and issues refunds to taxpayers. Electronic filing, available nationwide in 1990, makes filing taxes faster, easier, and more accurate than ever before.

Activity 1

Match each tax event to its correct date found in the answer key. Write the letter of the date that each event occurred in the space provided.

Answer Key:

- A.** 1913
- B.** 1997
- C.** 1872
- D.** 1953
- E.** 1986
- F.** 1943
- G.** 1862
- H.** 1969
- I.** 1895
- J.** 1990

- C** First income tax ended
- E** Tax Reform Act reduced the number and level of tax rates
- F** The “pay-as-you-go” system begins
- G** First income tax collected
- B** Taxpayer Relief Act brings over 800 changes to tax law
- H** Tax Reform Act stops corporations from avoiding taxes
- J** Electronic filing available nationwide
- A** Sixteenth Amendment provides for a permanent income tax
- I** Supreme Court declares income tax unconstitutional
- D** Bureau of Internal Revenue renamed IRS after complete reorganization

Activity 2

Match the descriptions of important people in IRS history to the names in the answer key. Write the letter of each person in the space before each description.

Answer Key:

- A.** Shirley Peterson
- B.** Lord Charles Townshend
- C.** Harry S. Truman
- D.** Oscar W. Underwood
- E.** Alexander Hamilton
- F.** Abraham Lincoln
- G.** William L. Wilson
- H.** Franklin D. Roosevelt

- E** First Secretary of the Treasury. In 1790 he proposed that the United States government pay its debt to countries and individuals who helped finance the American Revolution. His Revenue Act of 1791 imposed an excise tax on alcohol and tobacco products. This “Whiskey Tax” was the first internal tax in the United States.
- B** Wrote the Townshend Acts, which set up a Board of Customs Commissioners in the Colonies and imposed import duties on glass, lead, oil, paints, paper, and tea. Called “England’s most fateful decision,” the passage of the Townshend Acts was one of the incidents that led to the American Revolution.
- A** First female commissioner in the history of tax administration in the United States; appointed in 1992.
- H** This wartime President called the 1942 Revenue Act “the greatest tax bill in American history.” The bill included a Victory Tax to help pay for the cost of World War II.
- D** Author of the Underwood Tariff Bill, which provided for lowering tariffs. To offset the loss of revenue, the bill included an income tax provision, the first to be written under the Sixteenth Amendment.
- G** In 1894 this person proposed the Wilson Tariff Bill, which included an income tax provision. The Supreme Court later found the income tax to be unconstitutional.
- F** Was President when the first income tax law was passed during the Civil War.
- C** In 1952 this U.S. President called for a complete reorganization of the Bureau of Internal Revenue.

Activity 3

How do you think the United States would have fared if the Bureau of Internal Revenue (later the Internal Revenue Service) had not been instituted? Answer the question in the space provided.

1. How would the United States have fared in the two world wars without revenues from taxes?

Answers will vary but should imply that much of what we take for granted is provided for by revenue from income taxes.

2. How would life be different for low-income, disabled, and retired Americans without Social Security and the other services for which our taxes pay?

Answers will vary but should imply that much of what we take for granted is provided for by revenue from income taxes.

3. Do you think the United States would have been able to attain and hold its position in the world today without the support of taxes paying for defense?

Answers will vary but should imply that much of what we take for granted is provided for by revenue from income taxes.

4. Would the American lifestyle, as we know it, have evolved without income taxes?

Answers will vary but should imply that much of what we take for granted is provided for by revenue from income taxes.